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SENSITIVE
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STATE FOR EAP/J
STATE PASS PRC FOR CHAIRMAN BLAIR
USTR FOR M. BEEMAN, E. HOLLOWAY, AND AUSTR CUTLER
COMMERCE FOR K. ROTH, D. BARZDUKAS AND D. RUTTER

E.O. 12958: N/A

TAGS: [ETRD](#) [EINT](#) [PGOV](#) [ECON](#) [BEXP](#) [JA](#)
SUBJECT: POSTAL REGULATORY COMMISSION CHAIRMAN BLAIR ENGAGES JAPAN
ON ACCOUNTABILITY, TRANSPARENCY

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¶1. (SBU) Summary: Facing declining mail volume and decreased revenues, Japan Post Service needs to consider new ways to generate income, Japanese government officials told U.S. Postal Regulatory Commission Chairman Dan Blair in meetings in Tokyo June 10-12. As it proceeds with the privatization process begun in 2007, the government-owned entity is considering new businesses such as international logistics; according to one GOJ official, allowing Japan Post to enter into new businesses is "one of the primary objectives of privatization." Japan continues to weigh the costs of maintaining its universal service obligations against political pressures to ensure continued mail delivery in rural and isolated parts of the country with the need to diversify its income stream. Chairman Blair's visit provided a useful opportunity to engage the GOJ on accountability and transparency, as well as on concerns about cross-subsidization. End summary.

¶2. (U) Postal Regulatory Commission (PRC) Chairman Dan Blair, while in Tokyo to participate in a June 9 USG-sponsored symposium on U.S. postal reform, emphasized in separate meetings with senior GOJ officials the issues of accountability and transparency, as well as the role of the PRC as an independent regulator. He explained how the PRC defines competitive versus market dominant products and how it addresses concerns such as cross-subsidization in the U.S. Postal Service system in order to ensure a level playing field with the private sector. He also emphasized the significant role that the private sector plays in the U.S. postal industry, particularly through worksharing arrangements with the U.S. Postal Service. Chairman Blair met with officials from the Ministry of Internal Affairs and Communications (MIC), Japan Post Services Co. Ltd., the Japan Fair Trade Commission (JFTC), the Office for the Promotion of the Privatization of Postal Services (OPJP), the Council for the Promotion of Regulatory Reform (CPRR), and the Postal Services Privatization Committee (PSPC). Chairman Blair also held discussions with U.S. industry representatives and the American Chamber of Commerce in Japan (ACCJ), and conducted interviews with the Nikkei newspaper, TV-Tokyo, and Logi-Biz, an industry newsletter.

Japan Post Service Enters New Businesses?

¶3. (SBU) Japan Post Service needs investment and capital-intensive

infrastructure to maintain efficient and competitive direct mail service, but lacks adequate resources to innovate, Postal Privatization Committee (PSPC) Chairman Tanaka told Chairman Blair. Office for the Promotion of the Privatization of Postal Services (OPJP) Secretary-General Hideyuki Furikado, another top official, told Chairman Blair that due to declines in mail volume, there is a consensus in Japan that Japan Post Service should be allowed to enter into other businesses to increase its revenue.

¶4. (SBU) Japan Post Service plans to expand into international logistics, Japan Post Service Chairman and CEO Norio Kitamura, reported. Citing his 40 years working at Toyota, Kitamura said Japan Post Service could grow an international logistics business by reaching out to Toyota and other manufacturers. A new international logistics entity could allow Japan Post Service and USPS to cooperate more closely, he continued. Since Japan Post Service began privatizing 18 months ago, it does not have access to government support and would not request it even during difficult economic times, Kitamura stated. The company is still in the process of determining how to organize itself and develop as a lean, competitive organization. Chairman Blair explained that current U.S. postal laws limit the Postal Service to its core mission of hard-copy mail delivery.

¶5. (SBU) The MIC Policy Planning Bureau Director-General Hiroomi Kira told Chairman Blair it is difficult to "draw a line" between postal and non-postal businesses, as well as between dominant and competitive products. Due to a significant decline in volume, Kira said, it is critical Japan Post starts new services; in fact, "one of the primary objectives of privatization is to allow Japan Post to enter into new businesses." Kira said a new international logistics

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business, a joint venture between Japan Post Service and the private company Sankyu, would compete with the private sector.

Cross-Subsidization, Transparency and Accountability

¶6. (SBU) Tanaka, the Chairman of the PSPC, noted express mail industry players remain suspicious that Japan Post cross-subsidizes its businesses. For this and other reasons, the PSPC continues to focus on the need for greater transparency and open disclosure. Japan Post Service needs to disclose more information regarding its postal operations, Tanaka added. Separately, MIC's Director-General Kira said MIC will focus on transparency and at an arm's length transactions between Japan Post Service and Sankyu.

¶7. (SBU) Though the JFTC has no official position on Japan Post Service's plan to start an international logistics business, the JFTC emphasized the importance of equal footing with other players, JFTC Deputy Secretary-General Toru Aizeki told Chairman Blair. Privatization means giving freedom and latitude rather than trying to restrict activities of players in the market, Aizeki claimed.

Universal Service Obligation

¶8. (SBU) An overarching challenge for postal privatization is how best to define universal service, PSPC Chairman Tanaka said. Council for the Promotion of Regulatory Reform (CPRR) member Ushio Chujo said the CPRR continues to monitor MIC's approach to the universal service obligation. (Note: In September 2008, the CPRR ordered MIC to establish a study group on universal service. Meetings are on-going and the final report is due in approximately March 2010. In the June 15 meeting of the MIC Study Group on Universal Services, the Conference of Asia Pacific Express Carriers (CAPEC) (an organization of express mail carriers DHL, FedEx, TNT, and UPS) requested a more level playing field and equal conditions of competition. The study group's final recommendations could have substantial implications for the U.S. express mail industry in Japan. Though some of the study group's meetings have been open to the public, industry remains skeptical about whether MIC and other players will be able to live up to the ideals of transparency, accountability, and maintenance of equal conditions of competition. End note.

Comment:

¶9. (SBU) Chairman Blair's visit provided an extremely useful opportunity to engage the GOJ in a non-adversarial manner by offering an expert's perspective on how we handle postal reform issues in the United States. That a MIC universal study group member said the group is looking at the PRC's accounting methods as a possible example for Japan is one example of how this visit may have helped advance our agenda for the GOJ to address level playing field concerns associated with the Japan Post's 10-year privatization process. End comment.

¶10. (U) Chairman Blair cleared this message after departing Tokyo.

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